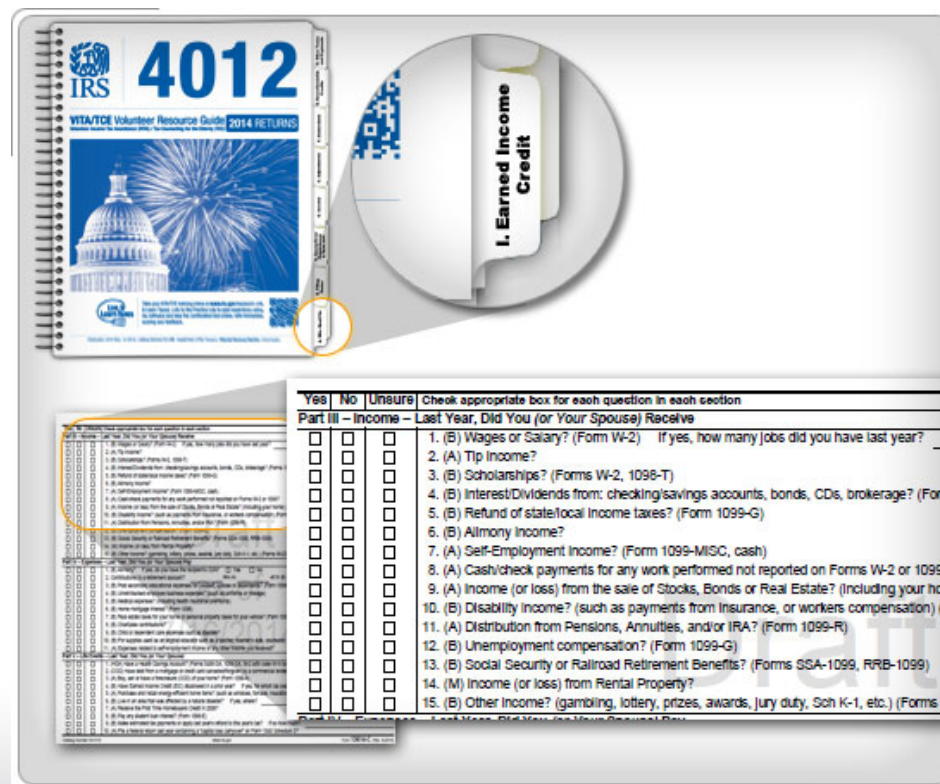


Earned Income Credit (EIC)



IRS 4012
VITA/TCE Volunteer Resource Guide 2014 RETURNS

I. Earned Income Credit

Yes	No	Unsure	Check appropriate box for each question in each section
			Part III – Income – Last Year, Did You (or Your Spouse) Receive
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Form 1099-INT)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment Income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability Income? (such as payments from Insurance, or workers compensation) (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment compensation? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15. (B) Other Income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2, 1099, etc.)



About Earned Income Credit (EIC)

- TaxWise: Payments Screen
- Additional resources listed in L< “References” tab
- Review all tips and cautions
- Read all examples and sample interviews
- We will review answers to each exercise in the lesson



Objectives – Earned Income Credit (EIC)

- Determine if a taxpayer is eligible for the EIC
- Calculate the EIC
- Time Required: 1-2 hours

Topics



- What is the EIC?
- Qualifying for the EIC
- Rules for taxpayers with qualifying children
- Rules for taxpayers without qualifying children
- Calculating the tax credit



Key Terms

Definitions are always available in the L< online Glossary.

- ATIN
- Earned Income
- Earned Income Credit (EIC)
- ITIN
- Unearned Income
- Refundable Credit



What is the EIC?

- A refundable tax credit available to eligible taxpayers who do not earn high incomes
- Qualifying taxpayers can receive a refund even if they have no filing requirement, owe no tax, and had no income tax withheld
- Families may claim EIC for three or more children, and amounts are adjusted for inflation every year

Qualifying for the EIC

- Three sets of rules:
 - General eligibility rules for everyone
 - Rules for taxpayers with one or more qualifying children
 - Rules for taxpayers who do not have a qualifying child
- Review Pub 4012, [Summary of EIC Eligibility Requirements](#); focus on Part A and Part D
- Avoid common EIC filing errors:
 - Incorrectly reported income
 - Incorrectly reported SSNs
 - Married taxpayers incorrectly filing as Single or Head of Household
 - Claiming a non-qualifying child

TIP Summary of EIC Eligibility Requirements

Part A Rules for Everyone	Part B Rules If You Have a Qualifying Child	Rules Have a c
Taxpayers & qualifying children must all have SSN that is valid for employment.	Child must meet the relationship, age, residency test and joint return tests. *If child is married, see additional rules in Publication 17	Must be at le age 65 as of
Filing status cannot be married filing separately.	Qualifying child cannot be used by more than one person to claim the EIC.	Cannot be th another pers
Must be a U.S. citizen or resident alien all year.	Cannot be a qualifying child of another person.	Must have liv States more
Cannot file Form 2555 or Form 2555-EZ (relating to foreign earned income).		Cannot be a another pers
Investment income must be \$3,300 or less.		
Cannot be a qualifying child of another person.		
Part D Earned Income and AGI Limitations You must have earned income to qualify for this credit. Your earned income and AGI must be less than: ■ \$46,227 (\$51,567 for married filing jointly) if you		

Qualifying for the EIC

- What are some example of earned income that may qualify taxpayers for the EIC?
 - Wages, salaries, tips, and other taxable employee pay
 - Taxable long-term disability benefits received prior to minimum retirement age
 - Nontaxable combat pay; compare the EIC amount with and without this pay before electing to include it in earned income
- See Pub 4012, [Earned Income Table](#) for a complete list

Earned Income	
Includes	Does not include
<ul style="list-style-type: none"> ■ Taxable wages, salaries, and tips ■ Union strike benefits ■ Taxable long-term disability benefits received prior to minimum retirement age ■ Net earnings from self-employment ■ Gross income of a statutory employee ■ Household employee income ■ Nontaxable combat pay election ■ Non-Employee compensation ■ The rental value of a home or a housing allowance provided to a minister as part of the minister's pay (Out of Scope) 	<ul style="list-style-type: none"> ■ Interest and dividends ■ Social security and railroad retirement benefits ■ Welfare benefits ■ Workfare payments ■ Pensions and annuities ■ Veteran's benefits (including VA rehabilitation payments) ■ Workers' compensation benefits ■ Alimony ■ Child support ■ Nontaxable foster-care payments ■ Unemployment compensation ■ Taxable scholarship or fellowship grants that are not reported on Form W-2 ■ Earnings for work performed while an inmate at a penal institution* or on work release ■ Salary deferrals (for example, under a 401(k) or 403(b) plan or the Federal Thrift Savings Plan) ■ The value of meals or lodging provided by an employer for the convenience of the employer ■ Disability Insurance payments ■ Excludable dependent care benefits (line 24 of Form 2441) ■ Salary reductions such as under a cafeteria plan ■ Excludable employer-provided educational assistance benefits (may be shown in box 13 of Form W-2) ■ Anything else of value received from someone for services performed, if it is not currently taxable

Rules for Taxpayers with Qualifying Children

- Claiming a child who is not a qualifying child is one of the most common EIC errors; make sure you apply the rules correctly.
- Review Pub 4012, Earned Income Credit tab:
 - [Summary of EIC Eligibility Requirements](#), Part B
 - [EIC General Eligibility Rules Interview Tips](#)
 - [EIC with a Qualifying Child Interview Tips](#)
 - [Qualifying Child of More than One Person](#)

Summary of EIC Eligibility Requirements		
Part A Rules for Everyone	Part B Rules If You Have a Qualifying Child	Part C Rules If You Do Have a Qualifying
Must have a qualifying child who has an SSN that is valid for employment.	Child must meet the relationship, age, residency test and joint return tests. *If child is married, see additional rules in Publication 17.	Must be at least age 25 by the end of the year or age 65 as of December 31.
Child cannot be married at the end of the year.	Qualifying child cannot be used by more than one person to claim the EIC.	Cannot be the dependent of another person.
Child must be a U.S. citizen or resident alien.	Cannot be a qualifying child of another person.	Must have lived in the United States more than half the year.
Child must be under age 19 at the end of the year, or under age 24 if a full-time student, or under age 25 if a full-time student in a 4-year program leading to a degree in health-related field.		Cannot be a qualifying child of another person.
Child's earned income must be \$3,300 or less.		
Child cannot be a qualifying child of another person.		
Part D Earned Income and AGI Limitations You must have earned income to qualify for this credit. Your earned income and AGI must be less than: ■ \$46,227 (\$51,567 for married filing jointly) if you		

Rules for Taxpayers without Qualifying Children

Rules are presented in Pub 4012, Earned Income Credit tab, Part C, and Interview Tips

- Must be at least age 25 but under age 65 as of December 31
- Cannot be the dependent of another person
 - Check Part I, question 13 on Form 13614-C
- Must have lived in the U. S. more than half the year

Summary of EIC Eligibility Requirements		
Category	Part B Rules If You Have a Qualifying Child	Part C Rules If You Do Not Have a Qualifying Child
Child must be at least age 25 but under age 65 as of December 31.	Child must meet the relationship, age, residency test and joint return tests. *If child is married, see additional rules in Publication 17	Must be at least age 25 but under age 65 as of December 31.*
Married	Qualifying child cannot be used by more than one person to claim the EIC.	Cannot be the dependent of another person.
U.S. resident	Cannot be a qualifying child of another person.	Must have lived in the United States more than half the year.
U.S. or foreign resident		Cannot be a qualifying child of another person.
AGI must be \$3,300		
Child of		
Part D Earned Income and AGI Limitations You must have earned income to qualify for this credit. Your earned income and AGI must be less than: ■ \$46,227 (\$51,567 for married filing jointly) if you		

Calculating the Tax Credit

- Check Part V, question 4 on Form 13614-C: Did you (or your spouse) have EIC disallowed in a prior year?
 - If yes, see the special rules in Pub 4012, [Disallowance of the Earned Income Credit](#)
- EIC amount is determined using worksheets and the EIC tables
 - Found in [Pub 596](#) or in Form 1040 Instructions
 - TaxWise will calculate the amount of EIC
- Use Schedule EIC if the taxpayer has at least one qualifying child
- Taxpayers with no children make a direct entry on the EIC line on Form 1040.

Payments

64	Federal income tax withheld from Forms W-2 and 1099	64	
65	2014 estimated tax payments and amount applied from 2013 return	65	
66a	Earned income credit (EIC)	66a	
b	Nontaxable combat pay election 66b		
67	Additional child tax credit. Attach Schedule 8812	67	
68	American opportunity credit from Form 8863, line 8	68	
69	Net premium tax credit. Attach Form 8962	69	
70	Amount paid with request for extension to file	70	
71	Excess social security and tier 1 RRTA tax withheld	71	
72	Credit for federal tax on fuels. Attach Form 4136	72	
73	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> Reserved d <input type="checkbox"/>	73	
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	

If you have a qualifying child, attach Schedule EIC.



Summary

- The earned income credit (EIC) computation is based on filing status, number of qualifying children, earned income, and adjusted gross income. Certain individuals with no children may also qualify.
- By using the intake and interview sheet, the interview tips in the Volunteer Resource Guide, and correctly filling out the EIC worksheets, most common errors can be avoided.
- The EIC is entered in the Payments section of the return.

Practice

- Select the problem from Publication 4491-W based on your certification course of study
- Complete the exercise

